State of Illinois
Illinois Commerce Commission

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| Notice of Inquiry into the recent increase in the price of natural gas | : : : : | 01 NOI-1 |

# Summary of Responses and Recommendations of Respondents

## An Illinois Commerce Commission Staff Report

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**March 16, 2001**

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## Summary of Recommendations, by Respondent

**A. Alliant Energy**

?? Recovering capacity costs over the heating season rather than year-round should be considered. (E3)

**B. Ameren**

?? The PGA should be modified to expressly allow the inclusion of financial hedging costs or a policy statement from the Commission should be issued as to the Commission's interpretation of the recoverability of financial hedging costs. (E3)

**C. CILCO**

**D. Citizens Utility Board**

?? The Commission should disabuse utilities of the notion that they face no regulatory risk for failing to mitigate price risk and that the Commission start punishing utilities for failing to make proper use of fixed price contracts, ceiling prices on supply contracts that are otherwise linked to market indexes, financial instruments such as futures, price-sensitive storage dispatch, or other hedging opportunities. (I1)

**E. Cook County State's Attorney's Office**

?? Regulator should focus on establishing correct prices. "Needle-peak" demand has grown as a result of being under-priced. (A4)

?? Should initiate a rulemaking and mandate a relatively uniform direct purchase program in all LDC service territories. (E6)

?? Require each LDC to report on hedging. (I1)

?? The Commission should initiate a rulemaking concerning rate design to create a rule requiring allocation of fixed costs 50% upon annual usage and 50% upon summer and winter peak use. (J1)

?? Commission should petition Federal Energy Regulatory Commission to commence a notice of proposed rulemaking to generically change interstate pipeline rate design to adopt the Seaboard method rather than the straight fixed variable or modified straight fixed variable method. Furthermore, the Staff of the Commission should make a similar pleading in all interventions before the FERC and issue a public report within six months outlining its initiates and strategies. (J2)

?? " It would be useful if the Illinois Commerce Commission staff conducted a survey of industrial and other gas users on whether they receive appropriate price signals to make such a shift. Further, when these customers have firm commitments for supply and capacity, can these customers easily resell their gas supply and capacity to others? Depending upon responses, the Commission staff may wish to promulgate a proposed change in this Commission's rules." (J3)

**F. Illinois Gas Company**

**G. Illinois Power**

- ?? Hold workshops and rulemaking to create guidelines for hedging. (I1)

**H. MidAmerican Energy Company**

- ?? Eliminate PGA filing on 20th of prior month. File on last day. Allow estimated reconciliation for the immediate prior month (if data available) as opposed to the second prior month as currently required (E3)
- ?? Commission should articulate a range of reasonableness for the amount of supply a utility can hedge. (I1)

**I. Midwest Community Council**

- ?? "Let Peoples Energy live with the prices they paid for wholesale gas, and let everyday people who had no choice live their lives, raise their children. Let seniors mature into their years without a capricious assault on the precious funds they have, let Churches work for their members instead of Peoples Gas, and let this be a lesson to Peoples Energy, to protect your customers." (J4)

**J. Mt. Carmel Public Utility Co**

**K. Nicor**

- ?? Should allow sharing of net revenue from capacity release, buy-sell agreements, sales for resale, and other off-system transactions. (E3)
- ?? Hedging should be allowed. (I1)

**L. Peoples Gas Light & Coke Co. / North Shore Gas Co.**

**M. United Cities Gas Company**

# Responses to Questions

## A. Initial Questions

***A.1. Identify the cause(s) for the increase in wholesale natural gas prices since the end of the 1999-2000 heating season. If the entity responding is an Illinois local distribution company (LDC), please identify the causes for the increase(s) in the wholesale natural gas prices which the LDC purchased since the end of the 1999-2000 heating season. Are you aware of any evidence of market manipulation by participants in the wholesale gas market? Please be as exhaustive on these questions as your interest and research capabilities will permit.***

*A.1.a. Alliant Energy*

Supply was down and demand was up, relative to previous years.

*A.1.b. Ameren*

Many factors lead to current precarious balance within North America between demand and daily deliverability of natural gas: Low prices in 1990s inhibited investment in exploration and well development; some areas off limits; crude oil prices increased dramatically; economic boom of 1990s; increased use of natural gas-fueled generation; increased demand by industrial users attempting to meet clean air requirements. Ameren not aware of manipulation.

*A.1.c. CILCO*

Oil price increased, thus increasing demand for substitutes such as natural gas, and thereby leading to the increase in the price of natural gas; demand for natural gas also increased due to new natural gas-fired generators; low storage levels; decline in drilling rigs. Not aware of any manipulation.

*A.1.d. Cook County State's Attorney's Office*

(a) Some increased demand by electric generators; strong economy spurring industrial and commercial demand; cold winter driving space heating demand. Tight supply due to low prices in past years and negative revisions of reserve additions due to learning curve with new drilling technologies. (b) Not aware of manipulation by market participants, but there are pockets of market power. Regulation “manipulates” the market: (i) Price of fuel oil includes variable and fixed costs, while price of natural gas includes rolled-in average variable costs; (ii) shift toward allocating fixed costs to peak period demand over a few days rather than over entire season or year; (iii) selective discounting of pipeline charges allowed, leading to another shift in recovery toward peak demand.

*A.1.e.* *Illinois Gas Company*
No knowledge on the subject.

*A.1.f.* *Illinois Power*
Real and perceived shift in supply and demand based on same factors already summarized. Not aware of any manipulation.

*A.1.g.* *MidAmerican Energy Company*
Cautions against ability to apply after-the-fact analyses of price movements to forecasting future events. Low prices reduced rig count from 627 in 97Q4 to 396 in 99W2. New natural gas-fired generation added 2 Bcf/day of demand over summer 2000. High summer prices lead to reduced storage injections, which subsequently lead to even higher prices going into winter. Extremely cold temps pushed out demand in Nov-Dec. Not aware of manipulation.

*A.1.h.* *Mt. Carmel Public Utility Co*
Short national supply and increasing national demand, in combination with less storage from year 2000, and increased speculative demand from gas fueled electric generation..

*A.1.i.* *Nicor*
Multiyear low in productive capability in U.S. lower 48 states (wet gas at avg. 52.5 Bcf/day, lowest since prior to 1990.) Demand pressure from gas fueled electric generation (increased from 4.9 to 5.4 Tcf.) Price increase to levels to discourage demand. Low U.S. storage inventories for 2000-2001 heating season (record low of 2,774 Bcf as of 10-31-00.) Record cold weather during the beginning of heating season (Nov. - Dec. 2000, coldest in 106 years.)

*A.1.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co*
Decline in drilling (782 rigs in 1999) over past few years due to warmer weather (3 consecutive winters) and resulting lower prices. Lag period (18 months average) for new rigs to bring supply to market. Shortage of equipment and skilled labor for drilling, drilling in more inaccessible areas, and tougher environmental laws related to new production. National Storage inventories lower than normal due in part to no summer/winter price difference.

Nationwide December demand higher than normal due to colder than normal weather, including Mid-south states. Increased summer demand due to gas fueled electric generation, including extensive utilization in Southern states in the summer. 33,000 MW gas fueled generation placed in service 1999-2000, can use an incremental 10 BCF per day when operating. Market based pricing for natural gas commodity.

*A.1.k. United Cities Gas Company*

Temporary lag between increased demand and supply, and weather. Drilling reduction 2 years ago due to low wholesale prices.

***A.2. What events or circumstances caused the natural gas prices projected in the late summer of 2000 for the months of October, November, and December 2000 (see, for example, presentations made to the Commission's Gas Policy Committee at its meeting on August 8, 2000, which were posted at http://www.icc.state.il.us/icc/gas/docs.asp#min on August 21, 2001) to be so much lower than the actual wholesale spot prices for natural gas purchased during those months?***

*A.2.a. Alliant Energy*

Coldest Nov-Dec in 106 years caused outward demand shift relative to expectations.

*A.2.b. Ameren*

Extreme cold of Nov-Dec.

*A.2.c. CILCO*

Hurricane Keith and Middle East turmoil; very cold December; AGA's weekly storage reports.

*A.2.d. Citizens Utility Board*

In reply to various initial comments, CUB points out that the level of prices could not have been predicted but the volatility of gas prices had already been a well-established fact.

*A.2.e. Cook County State's Attorney's Office*

Deferred to LDCs.

*A.2.f. Illinois Gas Company*

No knowledge on the subject.

*A.2.g. Illinois Power*

Cold Nov-Dec.

*A.2.h. MidAmerican Energy Company*

See A.1

*A.2.i. Mt. Carmel Public Utility Co*

Supply and demand kept prices higher, and summer demand due to utilization of natural gas chillers and electric generation.

*A.2.j. Nicor*

Record cold weather in November - December 2000, resulted in higher than normal demands. Forecasts in the late summer 2000 were based on normal weather.

*A.2.k. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Actual colder than normal weather in November, record cold weather in December, and expectations of colder than normal January 2001. None of these weather circumstances were predicted in late summer and early fall, 2000.

*A.2.l. United Cities Gas Company*

No response

***A.3. Please offer your observations, along with any supporting data, about the effects of regional and national air quality standards as they relate to the price and availability of natural gas nationally and in Illinois. Do these considerations affect the price of natural gas for residential consumers nationally and in Illinois?***

*A.3.a. Alliant Energy*

Air quality standards may have increased use of natural gas-fired generation and hence an increase in demand for natural gas, but other factors have contributed to popularity of natural gas generation: lower cap costs, faster construction, and ease of citing.

*A.3.b. Ameren*

No formal study, but agrees that air quality standards encourage use of natural gas and thus increase the price of natural gas.

*A.3.c. CILCO*

Gas is cleaner burning fuel and was less expensive; construction time and cost of natural gas-burning plants are low. Supply has not caught up with demand.

*A.3.d. Cook County State's Attorney's Office*

Air quality standards have encouraged use of gas and lead to an increase in price. As long as the standards accurately reflect environmental costs, the resultant higher price for gas is proper.

*A.3.e. Illinois Gas Company*

No knowledge on the subject.

*A.3.f. Illinois Power*

Any factor that increases demand will increase price. Market does not discriminate between end-users.

*A.3.g.* *MidAmerican Energy Company*

MidAmerican has no evidence of a natural gas price effect associated with air quality standards in the Midwest. MidAmerican cannot speculate on the effect of future air quality standards.

*A.3.h.* *Mt. Carmel Public Utility Co*

Yes natural gas plants favored over coal plants, contributed to natural gas price increases.

*A.3.i.* *Nicor*

They have contributed to gas fueled generation and thus increased demand for gas. Gas fueled generation is favored and cited easier than coal fueled because natural gas is cleaner and has fewer environmental restrictions on usage than coal.

*A.3.j.* *Peoples Gas Light & Coke Co. / North Shore Gas C.*

In theory, cost of coal scrubbers and emissions restrictions favor use of natural gas. Citing and environmental policies favor gas fueled generation.,

*A.3.k.* *United Cities Gas Company*

No response

***A.4. What have been the changes in the quantity, in Illinois and nationally, of natural gas demand by the various sectors of the economy? To what extent, in Illinois and nationally, has the quantity of natural gas demand by electric peaker plants increased? Holding all other factors constant, if one assumes that electric peaker plants' usage of natural gas had remained unchanged over the past two calendar years, what would natural gas prices have been, in Illinois and nationally, in the last four months of 2000?***

*A.4.a.* *Alliant Energy*

No response

*A.4.b.* *Ameren*

No formal study, but believes that peaker plants demand for natural gas has increased in recent years. No opinion about what the level of prices would have been in the absence of that increased demand.

*A.4.c.* *CILCO*

No response

*A.4.d.* *Cook County State's Attorney's Office*

No one use is to blame. **Recommendation**: Regulator should focus on establishing correct prices. "Needle-peak" demand has grown as a result of gas being under-priced during such times.

*A.4.e. Illinois Gas Company*

No increase in demand for natural gas and no electric generating plants in the Illinois Gas service territory.

*A.4.f. Illinois Power*

Not aware of accurate studies of increased demand by peaker plants. Determining the price effect of that increased demand would be speculative.

*A.4.g. MidAmerican Energy Company*

Reports consumption changes on its own system and indicates that it does not know what prices would have been had peaker plant demand remained unchanged.

*A.4.h. Mt. Carmel Public Utility Co*

See responses to previous questions.

*A.4.i. Nicor*

U.S. Demand has increased across all sectors for a total increase in 1999-2000 of one half trillion cubic feet. Demand for Nicor have been flat for the past 6 years. In 1995, delivered gas was 530.8 Bcf, in 2000 525.9 Bcf. Theoretically, if electric generation demand in Illinois did not increase, then demand would have been reduced somewhat. Reduction only in Illinois, would have little or no effect on natural gas prices.

*A.4.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Total consumption is at a 10 year high (1990-2000). Residential consumption is 2$^{nd}$ highest for period 19990-2000. Commercial is at highest level over 1990-2000. Industrial, includes non-utility generators, is at highest level of 1990-2000. Electric utility is third highest over 1990-2000.

*A.4.k. United Cities Gas Company*

No response

***A.5. Compare the adequacy of the gas supply within the US and Illinois over the past two heating seasons with the adequacy of the US gas supply during the current heating season. Is there any reason to believe that the supplies of natural gas readily available in the US and Illinois will be insufficient to meet the demands of a normal heating season during calendar years 2001 and 2002?***

*A.5.a. Alliant Energy*

Demand is currently being served by a combination of production in the range of 50-52 Bcf/day and storage withdrawals. If storage is filled during the summer and production remains above 50 Bcf/day, then adequate supply should be available for the next heating season.

*A.5.b. Ameren*

Ameren has not directly experienced any shortages. Ameren relies on long-term contracts and not spot market purchases. Prior two winters were relatively mild.

*A.5.c. CILCO*

Various publications suggest that new drilling will enable supply to catch up with demand in the next few years.

*A.5.d. Cook County State's Attorney's Office*

Market will ration supply. High prices set in motion their own cure: conservation, exploration and drilling. Improved rate designs could help to reduce excessive demand from electricity sector. Supply side is competitive.

*A.5.e. Illinois Gas Company*

Anticipates no problems serving the gas demand in the Ill. Gas service territory.

*A.5.f. Illinois Power*

Supplies have been adequate in last three heating seasons. Based on observation of demand-side and supply-side responses to the recent price increases, IP expects adequate supplies will exist next season.

*A.5.g. MidAmerican Energy Company*

Expects demand will continue to equate to supply and notes reactions to prices on both the supply side and the demand side. Expects further long-term reductions in quantity demanded, as large customers continue to reduce reliance on natural gas.

*A.5.h. Mt. Carmel Public Utility Co*

Supplies may stay low due to producers restricting output to influence price. Could be offset by relaxed environmental burdens from federal government.

*A.5.i. Nicor*

National prices will be higher due to increasing production costs and pipeline constraints. Midwest does not face observable major bottlenecks or capacity constraints on interstate pipelines (EIA). Nicor believes supply will be more than sufficient to meet demand of normal or colder than normal heating season in 2001-2002.

*A.5.j. Peoples Gas Light & Coke Co. / North Shore Gas Co*

No problems experienced this season nor anticipated next season. Demand has dropped significantly over this heating season due to higher prices, dual fuel customers have stopped using gas, and customers using gas as a production input have stopped production.

*A.5.k. United Cities Gas Company*

No response

***A.6. What changes have there been in interstate transmission line capacity into the Midwest and Illinois in 2000 and what if any changes are projected for 2001? What is the expected effect of these capacity changes on natural gas prices in the Midwest and Illinois?***

*A.6.a. Alliant Energy*

Capacity has increased with expansions of Northern Border and Alliance pipelines. The new Vector Pipeline takes gas from Chicago to Michigan. Not aware of changes for 2001.

*A.6.b. Ameren*

Alliance added 1.325 Bcf/day into Chicago from British Columbia. Vector moving 700,000 Bcf/day from Chicago to the northeast. Based on Chicago citygate to Henry Hub price differentials, there does not appear to have been a net effect on price of these developments.

*A.6.c. CILCO*

Projects to be operational in 2000 through 2002: Alliance, Vector, Horizon, Guardian, Whitecap, Supply Link, Independence, MarketLink. None of these are connected to CILCO. Should place downward pressure on price.

*A.6.d. Cook County State's Attorney's Office*

Illinois is well-situated with regard to pipeline capacity, but the natural gas market is the whole of North America. Demands outside of Illinois will rightfully influence prices paid in Illinois.

*A.6.e. Illinois Gas Company*

No major changes have occurred servicing Ill. Gas customers. May be a slight increase in capacity in 2002.

*A.6.f. Illinois Power*

Alliance began on Dec 1, 2000 with 1.325 Bcf capacity. Not aware of any planned expansions into Midwest in 2001. Effect on price uncertain.

*A.6.g. MidAmerican Energy Company*

In 2000, Alliance coming in and Vector going out of Chicago. Not aware of major changes in capacity planned for 2001.

*A.6.h. Mt. Carmel Public Utility Co*

None in Mt. Carmel area, does not know for rest of state.

*A.6.i. Nicor*

Alliance Project's 1.325 Bcf/day as of 12-01-200. Vector Pipeline moves gas from Alliance to Joliet, IL at 0.7Bcf/day. Cannot quantify increased pipeline capacity's effect on price of gas.

*A.6.j. Peoples Gas Light & Coke Co. / North Shore Gas Co*

About 2 Bcf per day of incremental pipeline capacity since 1998. (Northern Boarder 0.7 and Alliance 1.3) Chicago first of month index for December 2000 was 12% lower than national average (Gas Daily), due **in part** to increased pipeline capacity.

*A.6.k. United Cities Gas Company*

No response

***A.7. Have Illinois gas utilities experienced any significant expenses exclusive of the cost of purchased gas during 2000? Please distinguish between utility operating expenses exclusive of gas costs, non-utility expenses, and extraordinary items. If so, have these expenses caused any increases in amounts billed to gas customers during the 2000-2001 heating season?***

*A.7.a. Alliant Energy*

No significant expenses incurred other than the cost of gas.

*A.7.b. Ameren*

No significant expenses incurred other than the cost of gas and no base rate changes have been made since February 1999 and none are pending.

*A.7.c. CILCO*

Additional interest costs: $750,000. Additional non-pays. Additional communication costs: $40,125. Additional customer service costs: $100,000.

*A.7.d. Cook County State's Attorney's Office*

Deferred to LDCs.

*A.7.e. Illinois Gas Company*

No unusual non-gas cost expenses during 2000.

*A.7.f. Illinois Power*

Increased operated expenses due to Levelized Payment Plan, bad debt, customer service overtime, Warm Neighbors fund, public relations, customer communications, carrying costs. None of these are reflected in bills to customers.

*A.7.g. MidAmerican Energy Company*

No year 2000 expenses, other than the PGA, resulted in any changes to customer bills. A July 11, 2000 Order by the Commission allowed a rate increase based on a 1998 test year, resulting in a monthly fee increase from $6 to $9 and an average distribution charge decrease from 9.6 to 8.0 cents per therm.

*A.7.h.* *Mt. Carmel Public Utility Co*

Unaware of any.

*A.7.i.* *Nicor*

$148 million charge for mercury inspections and clean up. All mercury costs were recovered from shareholders. Higher gas costs increase costs to Nicor by: higher costs for Nicor usage, higher interest charges for borrowing money, higher accounts receivables, which increases borrowing costs and exposure to unpaid bills, reduce usage by customers which may lower income to Nicor, higher costs for customer communications.

*A.7.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Increases in bad debt and interest expense were most significant items increased as a result of higher gas prices. Non-recurring charge in Fiscal 2000 for Mercury investigation (not recovered in rates.)

*A.7.k.* *United Cities Gas Company*

No response

## B. Efforts to Inform and Assist Customers

***B.1. Please discuss any programs of Illinois gas utilities ("Illinois local distribution companies" or "Illinois LDCs") which explain and offer level and/or deferred payment plans to a residential and small business natural gas customer ("natural gas customer" or "such customer"). A level payment plan allows such customer to make levelized monthly payments, calculated by estimating such customer's bills for the upcoming months. A deferred payment plan allows such customer to pay off past due amounts by spreading the payments over several months. If the respondent is an Illinois LDC, please discuss this inquiry with specificity to the level payment plan(s) and/or deferred payment plan(s) offered by such LDC. Please indicate how long any such payment plan(s) of the Illinois LDC have been in effect and whether any such payment plan(s) have been amended within the past 12 months, and the effectiveness/acceptance by such customers of any such plan(s) and in particular, the number and percentage of such customers which participate in any such plan(s).***

*B.1.a. Alliant Energy*

Level payment plans are available to all residential customers. Commercial customers are considered on a case-by-case basis based on credit worthiness, size of monthly bills and time of year. Participation: SBWGE -- 1,261 customers (15.2%); IPC – 1,939 customers (14.1%).

Deferred payment plans are available to all residential and small commercial customers.

These plans have been in effect for several years and have not been changed in the past 12 months.

*B.1.b. Ameren*

Level payment plans offered; no amendments within past 12 months. AmerenCIPS will have automatic enrollment feature available during the next heating season. Participation: AmerenCIPS - 79,919 customers (23% of electric and gas customer base); AmerenUE - 16,117 customers (25% of electric and gas customers).

Deferred payment plans offered in accordance with Part 280; no amendments within past 12 months. Participation: AmerenCIPS- 10,277 customers representing 3% of the electric and gas population and 27% of customers with arrears; AmerenUE - 5,456 customers, representing 9% of the electric and gas customers and 26% of customers with arrears.

*B.1.c. CILCO*

Three types of payment plans for residential and commercial customers: level payment plan, deferred payment plan and a level payment plan plus deferred payment plan. These plans have been available for several years; the only modification (March 2001) is that customers will be able to enroll on level payment plan on their bill. Participation: level payment - 34,635 customers (15%); deferred payment plan - 2,733 customers (1.2%); level payment plan plus - 50 customers (.02%).

*B.1.d. Cook County State's Attorney's Office*

Although the consumer's knowledge of alternative payment options has grown, customers will still suffer. Suggests that regulators could assist customers by ending the subsidization of large gas users by residential and smaller commercial customers. Also, regulators should permit smaller customers the same options to choose a supplier that exists for the large customers.

*B.1.e. Illinois Gas Company*

Customers can get on a level payment plan from May until August. This plan has not been changed during the last 12 months. Participation: 862 customers (8.25%). Company's policy to treat each customer on an individual basis for deferred payment plans.

*B.1.f. Illinois Power*

Deferred payment agreements are offered. Temporary amendments were made in January 2001: 1) commercial customers with service for more than 2 years may have a deferred payment plan; 2) residential customers can renegotiate the terms if the current bills have significantly increased. Participation: 19,743 residential and 65 commercial customers had payment agreements.

Level payment plans are available. In January 2001 the plan was amended to allow residential customers with a past due balance to enroll. Participation: 159,000 customers (26%).

*B.1.g. MidAmerican Energy Company*

Level payment plans are available to all customers. Deferred payment agreements are offered in accordance with Part 280. Participation: 1,824 customers (2%) were participating in a deferred payment agreement.

*B.1.h. Mt. Carmel Public Utility Co*

Level payment plans are available. Deferred payment plans have traditionally been used for past due bills of one month. This winter company is combining past due and current bills into a deferred agreement.

*B.1.i.* *Nicor*

Historically, Nicor has offered a Convenient Payment Plan with 430,000 residential customers (25%) participating by paying an amount equal to 1/12 of their estimated annual bill. In November 2000, established the Customer Payment Support Plan; nearly 100,000 customers have signed up. This plan allows a customer to include past due amounts and projected future costs into one regular monthly payment. The ICC recently approved Nicor's new 12-month budget plan which will replace the aforementioned plans.

Deferred payment arrangements have been made with approximately 5000 customers and follow the requirements of Part 280.

*B.1.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Level payment plan was recently revised to offer auto-enrollment which allows a customer to pay an alternate budget plan amount that is displayed on the billing statement. Participation: Peoples - 168,662 (26%) of its eligible customers; North Shore - 37,280 (27%).

Current Plus Planis a type of deferred payment agreement that allows customers to spread past due amounts over future months in addition to current bills; standard term is six months. Participation: Peoples - 4,677; North Shore - 389.

Levelized Plus Plan - alternate type of deferred payment which provides a levelized payment plan for the length of the agreement as well as spreads past due amounts over the length of the agreement. Participation: Peoples - 5,189; North Shore - 300.

Plans are available to residential and commercial customers (not transportation customers).

*B.1.k.* *United Cities Gas Company*

Follows Part 280 rules for deferred payment arrangements. This year have offered extended arrangements. Participation: 872 customers (3.5%). 1,947 customers (8%) participate in the level payment plan.

***B.2. Please describe and evaluate the current and potential efforts of Illinois LDCs in promoting customer comprehension and use of***

***rudimentary and advanced measures for managing natural gas consumption. If the respondent is an Illinois LDC, please discuss this inquiry with specificity to the efforts of such LDC.***

*B.2.a. Alliant Energy*

Actively involved in raising awareness of increases in wholesale natural gas prices since July 2000 through earned media, advertising, direct marketing, speakers bureau and internal education. The four major themes are:1)early warning and advanced planning, 2)energy conservation, 3)national energy policy, and 4)safety. Efforts will continue and will also include the impact on purchased power prices and crop drying.

*B.2.b. Ameren*

Current efforts include inserts in bills, media interviews, releases, web site data, distribution of legislative and media relation packets, and letters to energy assistance agencies. Potential efforts include joint initiatives with other utilities and DCCA for Public Service Announcements.

*B.2.c. CILCO*

Communications efforts (began in August 2000) include internal education, bill inserts, media releases, information packets to community leaders and local stores selling weatherization items, web site, speakers bureau, advertising, and direct mail.

*B.2.d. Cook County State's Attorney's Office*

Believe that consumer knowledge of programs to manage consumption is rather limited and are generally used by households with higher incomes. It may be better for the regulators to terminate all distributor efforts for these programs and leave these initiatives to be carried out by private, third party firms.

*B.2.e. Illinois Gas Company*

Company counseled customers individually on conservation measures.

*B.2.f. Illinois Power*

Beginning in August 2000, issued a series of press releases, bill inserts, brochures and provided information on the web site. In cooperation with DCCA, service representatives offered to send weatherization booklets and displayed Energy Kits at two payment centers.

*B.2.g. MidAmerican Energy Company*

Provided energy conservation tips and information in response to customer inquiries, news releases, customer newsletter, pocket information card for field employees, Web site, community meeting handouts, TV appearances, weatherization workshops at Lowe's, and media briefings.

*B.2.h.* *Mt. Carmel Public Utility Co*

Company has used bill reminders, field visits, press releases and paid advertisement regarding managed consumption. This information included items on energy conservation, financial assistance, payment plans, and escalating market prices.

*B.2.i.* *Nicor*

Company has continuously provided conservation tips in the newsletter that is sent with monthly bills; advertisements; brochures; met with editorial boards; interactive web site; service reps talking directly with customers.

*B.2.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Company provides conservation information in the following ways: Web site, articles in customer newsletter, presentations and discount offers with Home Depot at Customer First Day.

*B.2.k.* *United Cities Gas Company*

Conservation tips were provided through: separate mailer, talking points for employees, media outlets (press releases and advertisement), and city officials.

***B.3. What measures were taken by LDCs and others prior to December 1, 2000, and what measures could be taken now and in the future by Illinois LDCs and others to alert such customers of the potential of increased retail natural gas prices? If the respondent is an Illinois LDC, please discuss with specificity the measures taken and which could be taken by such LDC.***

*B.3.a.* *Alliant Energy*

Refer to response to B.2 above.

*B.3.b.* *Ameren*

Bill inserts, bill messages, and press releases. See response to Question B-2 for measures that could be taken now (joint initiatives with other utilities and DCCA).

*B.3.c.* *CILCO*

See response to question B2.

*B.3.d.* *Cook County State's Attorney's Office*

ICC's focus on alerting consumers about the higher gas prices rather than focusing on the ability of distributors to have anticipated this winter's crisis is noteworthy. A customer choice program would have allowed consumers to examine published future prices and compare to marketer's offerings.

*B.3.e.* *Illinois Gas Company*

In October 2000, the company sent press releases to news media and bill message to customers.

*B.3.f.* *Illinois Power*

Initiated communication efforts beginning in summer 2000. Communications vehicles included: customer newsletter, formation of a Special Leadership Team, internal gas information, web site, brochures, proactive customer calling, press releases, editorial board visits, presentations, radio talk shows, direct mail, voice response unit messages, toll-free gas information line, and fundraising for assistance programs. Company is seeking input from LIHEAP agencies and discussing communication efforts with other utilities.

*B.3.g.* *MidAmerican Energy Company*

Efforts began in June 2000 and included: news releases, customer newsletters, Web site postings and other information as listed in response to B2.

*B.3.h.* *Mt. Carmel Public Utility Co*

Media releases and bill messages. Also see B2 above.

*B.3.i.* *Nicor*

Beginning in July 2000, provided information on the gas prices in monthly newsletter; through the editorial media—press releases and Press Kits; special web site; developed Public Service Announcements about LIHEAP and other assistance programs; advertisements and outdoor billboards. Communications will continue as long as natural gas costs are an issue.

*B.3.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*

First press release issued in June 2000; public meetings, customer/community outreach, packets and meetings with public officials; media and public information. Will continue communication efforts and are evaluating possibility of creating an "office on wheels."

*B.3.k.* *United Cities Gas Company*

See response to B2. Also, news releases and mailers concerning gas prices and supply issues, spoke to regulatory agencies, customers, city officials, and business groups.

***B.4. On occasion, an Illinois LDC has required the residential and/or small business customer to have a "good credit standing" in***

***order for such customer to participate in a deferred payment plan. If the respondent is an Illinois LDC, please discuss whether/why /under what conditions any such customer of the Illinois LDC must have a good credit standing before being allowed to participate in a deferred payment plan(s). Also indicate how many of such LDCs customers who are in arrears participate in such deferred payment plan(s) and how many, if any, such customers are currently without gas service due to non-payment of natural gas bills?***

*B.4.a. Alliant Energy*

No requirement to have a "good credit standing" to participate in a deferred payment plan. As long as agreements are kept there is no threat of disconnection. Difficult to get accurate count as billing system does not track all the different types of arrangements.

*B.4.b. Ameren*

Follow the rules in Part 280 for both residential and non-residential customers. As of 1/31, AmerenCIPS had 10,277 customers on a deferred payment plan (27% of customers in arrears). AmerenUE had 5,456 customers on a plan (25% of Illinois customers in arrears). No customers are currently without gas service due to non-payment of gas bills.

*B.4.c. CILCO*

Does not require customer to be in "good credit standing" to participate in a deferred payment plan. Part 280 does not require a company to enter into a payment plan under certain circumstances; CILCO will continue to offer additional plans on a case-by-case basis. Approximately 2,919 customers who are in arrears have a deferred payment plan. The number of customers who have been disconnected and have not been reconnected under "winter reconnect arrangements" is not available.

*B.4.d. Cook County State's Attorney's Office*

Not applicable.

*B.4.e. Illinois Gas Company*

Does not require customer to be in "good credit standing" to participate in a deferred payment plan. If a customer is making regular payments, they will not be disconnected from service. There is no customer that participates in a deferred payment agreement that is without gas service.

*B.4.f. Illinois Power*

Customers are not required to be in "good credit standing" to be offered a deferred payment arrangement; follow requirements in Part 280. 1,255 residential and small commercial customers that were disconnected in calendar year 2000 have not had service restored in the same account name.

*B.4.g. MidAmerican Energy Company*

Does not require a customer to be in "good credit standing" to obtain payment arrangements. Customer may be refused arrangements when they are in default of an agreement or are unable to comply with the terms and conditions. Currently 10,387 customers with arrears—9,949 residential and 738 non-residential. Approximately 18% of customers in arrears have long-term payment agreements.

There are 24 customers without gas service (20 are residential). Unable to determine if these customers moved prior to their disconnection without notifying the utility.

*B.4.h. Mt. Carmel Public Utility Co*

Complies with Part 280 criteria for deferred payment plan. Company has been more tolerant of late payments and more liberal this heating season with deferral amounts. Will cancel arrangements when customer defaults and makes no attempt to contact company.

*B.4.i. Nicor*

Follow Part 280 for deferred payment arrangements. Customer Payment Support Plan, instituted this year, allows customers to keep good credit standing by combining past due amounts and projected usage into one monthly payment. "Good credit standing" is defined as a customer that is not turned off for nonpayment, does not have a delinquent final balance transferred to this account or has not recently defaulted on a deferred payment arrangement. A customer in arrears is in "good standing" if they participate in a payment plan. Approximately 5,000 customers are on deferred payments and 6,600 are off for non-payment.

*B.4.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

"Good credit standing" is based on customer's previous history with regards to payment arrangements. Follow Part 280 rules. Participation: slightly more than 1% are currently billed under a deferred payment agreement plan. No data is available on those truly without gas service.

*B.4.k. United Cities Gas Company*

Credit rating is not used as criteria for a deferred payment arrangement.

## C. Supply and Production

***C.1. The earnings for the 4th Quarter 2000 for natural gas supply companies were quite robust. Please explain how the price spikes in natural gas prices since January 1, 2000 have contributed to the dramatically increased earnings of natural gas supply companies. In particular, please comment on the reasons for the increased earnings of the natural gas supply operations of companies and the impact of the natural gas prices paid by Illinois LDCs since January 1, 2000 on those earnings.***

*C.1.a. Alliant Energy*

Has no direct information. Believes that the price spikes increased the revenue received by gas production companies.

*C.1.b. Ameren*

Believes that outstanding financial performance of many gas producers may have been related to the significant increases in gas prices.

*C.1.c. CILCO*

Not able to respond.

*C.1.d. Cook County State's Attorney's Office*

States that high profits are a normal market phenomena in times of shortage

*C.1.e. Illinois Gas Company*

Not applicable.

*C.1.f. Illinois Power*

Suggests that increases in natural gas prices were due to a real and perceived shift in supply and demand

*C.1.g. MidAmerican Energy Company*

Attributes increased earnings for natural gas supply companies to the increase in the price of natural gas

*C.1.h. Mt. Carmel Public Utility Co*

Believes one can assume that suppliers receiving a higher price on higher volumes due to increased consumption, largely due to lower temperatures, had an impact on the earnings.

*C.1.i. Nicor*

Agrees with the Commission's assessment of the 4th quarter earnings reported for natural gas supply companies. For Illinois LDCs there were many negative effects on earnings such as: higher cost for the natural gas used in daily operations, higher interest charges for borrowing money, and higher accounts receivables.

*C.1.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

No information.

*C.1.k. United Cities Gas Company*

No response

## D. Transmission

***D.1. The earnings for the 4th Quarter 2000 for natural gas transportation companies were quite robust. Please explain how the price spikes in natural gas prices since January 1, 2000 contributed to the earnings of such natural gas transportation companies. In particular, please comment on the reasons for the increased profit of the natural gas transportation companies and the impact of those increased earnings on the natural gas prices paid by Illinois LDCs since January 1, 2000.***

*D.1.a. Alliant Energy*

Asserts that price spikes in natural gas did not contribute to the earnings of gas transportation companies because pipeline revenues are based on reservation fees and commodity fees based on throughput. If anything, high gas prices discouraged demand which negatively affected throughput.

*D.1.b. Ameren*

Believes that the demand for firm pipeline capacity and storage capacity has increased recently due to the generation facilities. This has increased their earnings when compared to prior periods when these pipelines typically held unsold firm capacity. In addition, the months of November and December 2000 were the coldest in the past 100 years. This created a large increase in gas throughput, which in turn led to increased earnings for interstate pipeline companies due to greater volumetric revenues.

*D.1.c. CILCO*

Not able to respond to this question.

*D.1.d. Cook County State's Attorney's Office*

Asserts that nearly all pipelines employ a straight fixed variable rate design, rates for firm transportation were set based on the assumptions that excess capacity was a normal state, and a sizeable share of capacity could only earn a highly discounted rate if others could resell their capacity rights to others. Thus, to generate the full revenue requirement for the pipeline, rates paid primarily by captive customers were adjusted higher. The higher pipeline earnings in 2000 indicate that this prior scenario has turned out to be far from the actual case. Not only may there be excessive earnings being captured, but the winter peak period users are paying extremely excessive high rates and far too large a share of the costs.

*D.1.e. Illinois Gas Company*

States it has not experienced an increase in its transportation costs, other than those ordered by the FERC, in the process of a regularly scheduled rate case.

*D.1.f. Illinois Power*

Did not respond to this question in depth, but states its transportation costs have not risen in the last year.

*D.1.g. MidAmerican Energy Company*

States that much colder than normal November and December resulted in substantially higher weather related demand than the previous two Novembers and Decembers that more than compensated for the demand reduction related to price.

*D.1.h. Mt. Carmel Public Utility Co*

Believes that any increased levels of transmission would likely lead to higher earnings for transportation pipelines. This higher cost of transportation would be charged to the LDS in proportion to volume transmitted.

*D.1.i. Nicor*

States that increased load demands related to cold weather directly impacts earnings for transportation companies.

*D.1.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Does not have any information on this question.

*D.1.k. United Cities Gas Company*

No response

***D.2. Please comment on the adequacy of the facilities which are used to transport natural gas to Illinois LDC's and whether the respondent is aware of any market manipulation of transportation prices charged since January 1, 2000, by natural gas transportation companies which transport gas to Illinois LDCs.***

*D.2.a. Alliant Energy*

Pipeline capacity has increased in Illinois with Northern Border and Alliance projects. Alliant has no knowledge of price manipulation.

*D.2.b. Ameren*

Facilities serving Ameren's gas markets in Illinois are currently adequate to meet existing demand. Ameren is concerned that there may be insufficient transportation capacity to meet future demand for natural gas. Ameren is unaware of any market manipulation of transportation prices.

*D.2.c. CILCO*

The facilities used to transport natural gas to CILCO were adequate. CILCO is unaware of any market manipulation of transportation prices charged to transport gas.

*D.2.d. Cook County State's Attorney's Office*

Pipelines have market power. Regulators must make sure that transactions are as transparent as possible and sufficient reporting requirements are adhered to.

*D.2.e. Illinois Gas Company*

Illinois Gas has no knowledge of any market manipulation of transportation prices.

*D.2.f. Illinois Power*

IP has been able to reserve sufficient pipeline capacity to serve its expected load. IP believes that transportation facilities are sufficient in their service areas. IP is unaware of any market manipulation.

*D.2.g. MidAmerican Energy Company*

Facilities used to transport gas to Chicago proved adequate in meeting Chicago's natural gas supply needs. MEC is not aware of any constraints that negatively affected the supply of natural gas to Chicago. MEC is not aware of any market manipulation of transportation prices charged since January 2000 *by the natural gas transportation companies which serve the Illinois LDCs.*

*D.2.h. Mt. Carmel Public Utility Co*

Mt. Carmel had no problem with transmission facilities this past winter.

*D.2.i. Nicor*

Nicor believes that current pipeline capacity exists to meet current demand. Nicor is unaware of any price manipulation by natural gas transportation companies.

*D.2.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Peoples has benefited from being involved in both the Alliance and the Northern Border Pipeline projects. Peoples is not aware of any transportation price manipulation since January 1, 2000 by natural gas transportation companies that transport gas to their service territories.

*D.2.k. United Cities Gas Company*

No response

## E. Distribution

***E.1. Witnesses before the Commission have proposed incentive rates, in some cases involving modifications to the purchased gas adjustment clauses of Illinois LDCs. Please indicate if the respondent favors or disfavors incentive rates and the reasons for such position. If the respondent favors modifications to purchased gas adjustment clauses to incorporate performance-based ratemaking, please indicate the modifications which should be made.***

*E.1.a. Alliant Energy*

Under consideration. No conclusion, at this time.

*E.1.b. Ameren*

Favors incentive-based alternative to traditional PGA and prudence review process. No specific proposals at this time.

*E.1.c. CILCO*

In most cases, LDCs and Commission have not come to an agreement on PBR programs. Most PBR programs are tied to a spot market index and therefore would not stabilize volatility of customer rates.

*E.1.d. Cook County State's Attorney's Office*

Incentive mechanisms are of dubious value since competition (presumably through direct access programs) could automatically provide this function. However, if incentive mechanisms are introduced, they should follow the "Competitive Yarkstick" format described by in Dockets 95-0491 and 96-0386. Fixed price proposals (as in Dockets 98-0819/20 have some appeal as long as consumers have choice of alternative schemes from alternative merchants.

*E.1.e. Illinois Gas Company*

No position, except small LDCs should have special consideration due to limited resources and sole pipeline suppliers.

*E.1.f. Illinois Power*

Does not disfavor the concept of incentive rates but LDC must receive a reasonable opportunity to profit in order to compensate for added risks.

*E.1.g. MidAmerican Energy Company*

Favors incentive plans and has them in effect in other states. While incentive plans may result in reduced costs and customer savings, they may not necessarily protect customers from price volatility.

*E.1.h. Mt. Carmel Public Utility Co*

Does not advocate elimination of PGA, in part due to volatility in gas prices. Does not object to incentive rates.

*E.1.i. Nicor*

Any changes to Uniform Gas Cost should permit and encourage: appropriate incentives to improve transport, storage acquisition and management. The latter will result in best gas prices available, and ensure reliability and security of supply. Establish reasonable balance between risk and reward for gas supply and transport and storage. Establish objective standard for evaluating gas supply, transport and storage that would eliminate after-the fact prudence reviews.

*E.1.j. Peoples Gas Light & Coke Co. / North Shore Gas Co*

Favor incentive rates because rewards work better than threat of disallowance. Not planning to modify PGA.

*E.1.k. United Cities Gas Company*

No response

***E.2. In order to gain some price stability, should purchased gas adjustment clause prices be adjusted less frequently than once per month? If so, what would be an appropriate alternative?***

*E.2.a. Alliant Energy*

Monthly is best, allowing better, more timely and smoother true-ups, more timely and accurate price signals, and less cross-subsidization of spaceheating customers non-spaceheating customers or vice versa.

*E.2.b. Ameren*

Monthly is best, allowing less distortion and greater stability in price tracking. Consumers can achieve stability through budget billing.

*E.2.c. CILCO*

PGA should be monthly. Prices could be more stable if LDCs were allowed to do 6 to 12 month hedges.

*E.2.d. Cook County State's Attorney's Office*

If anything, more frequent price updating should occur to improve price signal. Price stability is not the objective. Rather, stability in the amount that is paid is the proper objective. This can be accomplished through level payment plans.

NICOR Reply to Cook County Comments: The PGA already reflects market conditions and sends proper price signals. The continuation of a monthly PGA is appropriate.

*E.2.e. Illinois Gas Company*

Favors retention of monthly PGA to avoid financial risk to utility and risk of massive price swings for consumers associated with resolving previous months' under/over collections.

*E.2.f. Illinois Power*

Sound arguments exist on both sides of the debate, but IP favors the monthly PGA. Having a levelized payment plan option effectively gives the customer the ability to choose either a volatile bill or a non-volatile bill.

*E.2.g. MidAmerican Energy Company*

Less frequent PGA adjustments will not provide greater long-term price stability. Instead, they will lead to larger under and over collection build-ups. Greater price stability but not necessarily lower costs can be obtained through financial instruments.

*E.2.h. Mt. Carmel Public Utility Co*

Monthly is appropriate as it passes on costs on as soon as it is reasonable. Less frequent adjustments could result in larger price swing and increased carrying costs to LDC.

*E.2.i. Nicor*

Monthly provides a better price signal to customers in a timely manner as to the true cost of gas. Extending period will guarantee mismatch between cost recovery and cost incurrance. Mismatch would result in more carrying costs. Significant under collections could jeopardize credit ratings and financial wherewithal of the utility, resulting in higher cost and lower reliability to customer. Third party suppliers base their prices on utility gas supply costs, thus extended period for PGA could distort the working of the market by not providing suppliers with moist recent cost information. Level payment of customer bill can be used to smooth price spikes for customers.

*E.2.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

No. Current PGA is coordinated with monthly market prices and sends timely price signals to customers.

*E.2.k. United Cities Gas Company*

No response

***E.3. Should the purchased gas adjustment clauses be revised in any other manner, and if so, how?***

*E.3.a. Alliant Energy*

**Recommendation**: Recovering capacity costs over the heating season rather than year-round should be considered.

*E.3.b. Ameren*

**Recommendation**: The PGA should be modified to expressly allow the inclusion of financial hedging costs or a policy statement from the Commission should be issued as to the Commission's interpretation of the recoverability of financial hedging costs. The current language in the PGA rule is unclear regarding recoverability. Thus, Ameren has embedded hedging tools within the pricing provisions of commodity contracts rather than using external instruments. (See Reply Comments of CUB.)

*E.3.c. CILCO*

PGA should not be changed, but Commission should promote the use of hedging to lessen the sharp increases and decreases in prices. Hedging does not equate to the lowest cost in all cases and the Commission would have to change its thinking as it relates to prudence reviews related to hedging activities. (See Reply Comments of CUB.)

*E.3.d. Citizens Utility Board*

Reply comments: No utility has ever been subject to a prudence disallowance for gas price hedging. There is no evidence of regulatory harm and no need to waive consumer protections in order to protect shareholder interests. If a specific mandatory uniform standard was implemented, the Commission would have to change its thinking as it relates to prudence reviews related to hedging activities. The Commission appears to maintain an unofficial policy that utilities face no regulatory or prudence risk for failing to mitigate price volatility. The Commission should state that prudence reviews will consider how the utility met its obligation as the monopoly merchant provider to mitigate for price volatility and failure to make reasonable use of fixed price contracts, ceiling prices on supply contracts linked to market indexes, financial instruments, storage dispatch in response to price signals, or other hedging opportunities should result in a prudence disallowance. Illinois utilities, in the absence of profit opportunities, have employed risk-minimizing strategies of the sort routinely undertaken by sophisticated and prudent large gas buyers.

*E.3.e. Cook County State's Attorney's Office*

PGA can be deregulated with a well-designed customer direct purchase program.

*E.3.f. Illinois Gas Company*

Favors a single monthly filing as close to end of month as possible to minimize error and duplication of effort embodied by the current system.

*E.3.g. Illinois Power*

See comments on E.2

*E.3.h. MidAmerican Energy Company*

**Recommendation:** Eliminate PGA filing on 20th of prior month. File on last day. Allow estimated reconciliation for the immediate prior month (if data available) as opposed to the second prior month as currently required.

*E.3.i. Mt. Carmel Public Utility Co*

No response

*E.3.j. Nicor*

**Recommendation**: Should allow sharing of net revenue from capacity release, buy-sell agreements, sales for resale, and other off-system transactions. Current PGA treats all such net revenue as an offset to gas costs solely for the benefit of ratepayers, as determined by the Commission in 94-0403.

*E.3.k. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Basic provisions of PGA should not be changed. They are the result of a statewide proceeding. The events of this winter do not point to any flaws in the PGA, which provides a consistent process for recovery of gas costs.

*E.3.l. United Cities Gas Company*

No response

***E.4. If the respondent is an Illinois LDC, what were retail gas prices, in dollars per therm paid by such LDC during the last four months of 2000 and the during the last four months of 1999? Please break down the prices into categories, as shown in Appendix J-1. What factors contributed to the increase in wholesale and retail market gas prices observed since the spring of 2000?***

*E.4.a. Alliant Energy*

Change (2000-1999) simple average across the four months:

**Interstate Area A**: Commodity +$0.160; Pipelines -$0.003; Distribution unchanged.

**Interstate Area B**: Commodity +$0.455; Pipelines +$0.009; Distribution unchanged.

**S.Beloit**: Commodity +$0.482; Pipelines unchanged; Distribution unchanged.

*E.4.b. Ameren*

Change (2000-1999):
Commodity +$0.338; Pipelines -$0.045; Distribution -$0.069.

*E.4.c. CILCO*
Change (2000-1999):
Commodity +$73 million; Pipelines -$1 million; Distribution -$0.0217/Therm.

*E.4.d. Cook County State's Attorney's Office*
Deferred to LDCs.

*E.4.e. Illinois Gas Company*
Change (2000-1999):
Commodity +$0.3224; Pipelines -$0.0121; Distribution +$0.0006.

*E.4.f. Illinois Power*
Change (2000-1999):
Commodity +$0.4848; Pipelines -$0.0322; Distribution -$0.0163.

*E.4.g. MidAmerican Energy Company*
Change (2000-1999):
Commodity +$0.3382; Pipelines -$0.0408; Distribution +$0.0021.

*E.4.h. Mt. Carmel Public Utility Co*
Change (2000-1999):
Commodity +$0.304; Pipelines -$0.008; Distribution -$0.006.

*E.4.i. Nicor*
Change (2000-1999):
Commodity +$0.31; Pipelines -$0.01; Distribution -$0.02.

*E.4.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*
Change (2000-1999):
**Peoples:** Commodity +$0.3666; Pipelines +$0.0006; Distribution -$0.0047.
**N.Shore:** Commodity +$0.3797; Pipelines +$0.0046; Distribution +$0.0021.

*E.4.k. United Cities Gas Company*
Change (2000-1999):
Commodity +$0.286; Pipelines -$0.024; Distribution -$0.008.

***E.5. If the respondent is an LDC, please discuss the extent of estimated meter readings and the methods used to calculate bills based on such estimated readings for the last four months of 2000 and 1999. Of the current estimated meter readings, please identify***

***the projected number of customers who have potentially overpaid or underpaid for their gas usage.***

*E.5.a. Alliant Energy*

SBWGE 4 month totals: 1999=28,146, 2000=16,801
Estimated bills based on average usage for prior 3 months of the previous year x current rates and adjustment charges.
Cannot identify number of customers with current estimated readings who are over/underpaid, but projection is that they have underpaid.

Interstate Power 4 month totals: 1999=178, 2000=246
Estimated bills based on customer usage pattern factors (calculated from actual readings) x customer usage history x current rates and adjustments.
Cannot identify number of customers with current estimated readings who are over/underpaid, but projection is that most are close to actual since customer usage pattern factors take into account weather data.

*E.5.b. Ameren*

| CIPS/UE | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|
| 1999 Residential | 4,490 | 2,399 | 4,729 | 9,499 |
| 2000 Residential | 1,341 | 810 | 333 | 5,231 |
| 1999 Non-residential | 337 | 173 | 637 | 941 |
| 2000 Non-residential | 211 | 153 | 94 | 335 |

Estimated residential usage based on customer's average use per day (from prior month or, if unavailable, from same month last year) x days in current billing period x customer usage pattern factor (based on weather & degree day trends by geographic area).
Estimated non-residential usage based on customer's average use per day (from same month last year or, if unavailable, from prior month) x days in the current month.
Projected number of customers over/underpaid for gas usage is not available. However, PGAs did not increase materially from Dec. 2000 to Jan. 2001, so underestimated usage for Dec. would not have resulted in substantially

higher January bills due to PGA increases applied to carryover consumption from December.

*E.5.c. CILCO*

| Estimate type | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|
| 1999 Local | 1,393 | 1,602 | 1,348 | 1,764 |
| 2000 Local | 832 | 889 | 688 | 3,982 |
| 1999 Computer | 3,454 | 2,008 | 1,488 | 1,891 |
| 2000 Computer | 3,004 | 1,842 | 1,426 | 35,987 |

Estimated usage = Use per day x total weather factor x days in billing cycle.
Use per day = Actual reading from selected historical period/number of days in the period The historical period is based on the first actual reading available in order of 1) same period last year, 2) same period two years ago, 3) previous billing.
Total weather factor = historical weather factor x current weather factor. Weather factors are based on normal degree days and actual degree days.
No projection of accounts over/underbilled.

*E.5.d. Cook County State's Attorney's Office*

Not an LDC.

*E.5.e. Illinois Gas Company*

Fewer than five estimated readings per month, all of which are due to equipment failure. No customers affected by over/under estimates.

*E.5.f. Illinois Power*

| Year | % of total meters estimated | | | |
|---|---|---|---|---|
| (total meters) | Sept. | Oct. | Nov. | Dec. |
| 1999 (1,013,000) | 1.0% | 1.0% | .9% | 1.0% |
| 2000 (1,019,000) | 10.0% | 18.1% | 21.6% | 37.8% |

Increase due to bimonthly meter reading pilot program & weather. Estimated bills are based on customer's daily base period usage x trend factor x days in billing cycle. Selected base period is last year or, if not available, last month. The trend factor is calculated from a peer group's usage for the same base period and the current month. (peer group = all other metered usage with the same rate, revenue month, space heat flag & geographic division as the customer)
220,117 estimated readings in January 2001 (21.6% of total meters). Gas usage was overestimated by an average of 2.1%.

*E.5.g. MidAmerican Energy Company*

| Gas & elect. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|
| 1999 | --------------- unavailable-- ------------- | | | |
| 2000 | 5,961 | 6,608 | 6,126 | 32,231 |

Estimated readings normally average 6.2% of meters per month, but increased to 23% in Dec. 2000.
Prior to Jan.. 2001, estimated bills were based on usage for the same month in the previous year. Currently, estimated bills are based on the previous month's reading x percent of use factor (percent change in consumption from one month to the next for an average meter on a given rate within a weather grouping and a given cycle).
The Company has established a team to analyze and implement a more sophisticated method for estimating meters. The number of over/underpaid customers was not identified, but the Company rebilled customers with December 2000 estimated gas bills by using their January readings (actual or estimated) and prorating the total usage evenly by day over the two billing cycles. The resulting usage by billing cycle was then multiplied by the rate(s) in effect during the respective cycle.

*E.5.h. Mt. Carmel Public Utility Co*

Company gave no specifics. Stated that estimates are done in accordance with Part 280 (which only describes circumstances under which estimates can be made, not how they are to be calculated).

*E.5.i. Nicor*

| | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|
| 1999 | 257,227 | 792,926 | 963,430 | 969,932 |
| 2000 | 361,440 | 865,896 | 1,027,293 | 1,059,177 |

Bimonthly actual meter readings; estimated readings in alternate months.
Customer's estimated volume = Historical base use per month + (historical use per degree day x total actual heating degree days in period).
Account is reviewed when an actual reading falls outside of an expected range. If an adjustment is necessary, bill is recalculated using the applicable gas service charge for the period in question. No projection of customers over/underpaid, but number is believed to be minimal.

*E.5.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*
Peoples Gas - 10%-20% of bills are based on estimated readings.
North Shore - approximately 50% of bills are based on estimated readings.
1999 methodology - Estimated bill based on daily non-heating factor, per-degree-day heating factor, current temperatures, number of days, and current gas costs. Factors were derived from customer's recent actual meter readings.
2000 methodology - Same as 1999, except factors were derived from customer's historical usage for the same calendar period during the prior year.
Consumption is allocated correctly so "…..no customer over or underpays as a result of the estimating procedure."

*E.5.k.* *United Cities Gas Company*
No response.

***E.6. If eligibility were expanded for "customer direct purchase" programs (i.e., tariffs allowing customers to buy their gas from third parties while using the LDC for transportation, storage and balancing services), could consumers be better protected against price volatility? Should the Commission require such an expansion? What would be the effect of allowing (or requiring) LDCs to exit the merchant function? In responding to these questions, please be advised that related issues are currently pending***

***in Dockets 00-0620 and 00-0621, Consolidated (involving the Nicor Gas Customer Select program), and kindly serve any responses to this question on the parties to those consolidated cases as well. Please also be advised that in reaching its decision in those consolidated proceedings, the Commission is limited to considering evidence and argument properly of record in those cases.***

*E.6.a. Alliant Energy*

No response

*E.6.b. Ameren*

Direct purchase will not have an effect on price stability. Marketers also buy from the same volatile market. Markets and utilities both offer price stabilization programs to their customers. Will not comment on desirability of expanding direct purchase programs without knowing details of a specific proposal. Exiting the merchant function should not have adverse impact on Ameren.

*E.6.c. CILCO*

CILCO has not finalized its opinion on direct purchase programs. Direct purchase programs would not necessarily lead to greater price stability or bill stability. Based on participation levels in CILCO's direct purchase programs, many of its customers want CILCO to continue providing merchant service.

*E.6.d. Cook County State's Attorney's Office*

**Recommendation**: Should initiate a rulemaking and mandate a relatively uniform direct purchase program in all LDC service territories.

**Response by Peoples Gas Light & Coke Co. / North Shore Gas Co:** Proposal should be rejected because such programs are either already in effect or planned for the near future. Hence, a rulemaking is not needed and a rulemaking is not the "best vehicle to accomplish choice."

**Response by Nicor:** Supports direct purchase programs and has proposed expanding its current "Customer Select" pilot program to all customers.

*E.6.e. Illinois Gas Company*

Complex nature of no-notice service provided by the sole pipeline supplier of Illinois Gas makes implementation of direct access difficult for individual customers. Nevertheless, direct access could be beneficial if these obstacles could be overcome.

*E.6.f. Illinois Power*

Not opposed to expanding direct access to residential customers, as long as various issues are addressed. IP also considering other pricing options for customers.

*E.6.g.* *MidAmerican Energy Company*

Supports movement toward direct purchase programs. Such programs may not protect customers against market price volatility. Direct purchase may offer customers a greater array of choices to deal with such volatility, as opposed to current attempts to balance concerns over price level and price volatility in one PGA.

*E.6.h.* *Mt. Carmel Public Utility Co*

Against expansion for customer direct purchase programs, would not decrease price volatility. Does not want to be part of Nicor dockets.

*E.6.i.* *Nicor*

Specific position is stated in consolidated Docket 00-0620 & 00-0621. Nicor believes it is important to facilitate a truly competitive market for customers so that customers have real choices in the products and services and prices they pay for them.

*E.6.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Customers protected by third party suppliers only to the extent fixed price offers are secured. Fixed price does not always mean lower cost. Expansion to residential customers should not be required without enacting protections for customers against third party suppliers. Effect of allowing or requiring LDC to exit merchant function depends on consumer protections, provider of last resort issue, stranded costs, transition measures, including time-frame for open-access.

*E.6.k.* *United Cities Gas Company*

No response

## F. Holding Companies and Affiliates

***F.1. If the respondent is an Illinois LDC, please provide a brief description of the major operating affiliates of such LDC, and a statement of transactions, if any, between those affiliates and such LDC from January 1, 2000 to date.***

*F.1.a. Alliant Energy*

Alliant identifies Wisconsin Power and Light, IES Utilities, IPC, and Alliant Energy Resources and Corporate Services as primary first tier subsidiaries of Alliant Energy. Alliant then refers the Commission to its annual 10-K filing with the SEC for further information.

*F.1.b. Ameren*

Ameren identifies as its major operating affiliates AmerenUE (LDC), Ameren CIPS (LDC), Ameren Energy Generating Company (owns and operates former CIPS generating plant), Ameren Services Company (provides shared support services to all Ameren Companies), and AmerenEnergy Fuels and Services Company. Transactions between Ameren Services Company and the two LDCs are governed by a Commission-approved General Services Agreement. AmerenEnergy Fuels and Services Company has requested authority from the Commission in Docket No. 00-0757 to provide services in the future.

*F.1.c. CILCO*

CILCO's only natural gas affiliate is CILCORP Energy Services Inc (CESI), which provides gas management services to commercial and industrial customers in Nicor's and CILCO's service areas. Gas purchased for customers in Nicor's area does not go through CILCO's system. For CESI transportation customers in CILCO's area, the gas is purchased independent of gas for CILCO's PGA customers. CESI purchases represent less than 10% of CILCO's purchases.

*F.1.d. Cook County State's Attorney's Office*

No comments provided. Left for companies at this time.

*F.1.e. Illinois Gas Company*

The only affiliate of Illinois Gas is USDI a gas engineering company which does not involve any activities in gas purchasing, storage or transportation. Illinois Gas provides administrative, personnel and support services for USDI and is reimbursed according to an overhead accounting system which is based on payroll.

*F.1.f. Illinois Power*

IPC indicates that it is part of the Dynegy Inc. family of companies whose major business units are involved in electric generation, trading and marketing at both the wholesale and retail levels, gas trading and marketing at the wholesale level, and telecommunications and information technology services. IPC states that it has not yet compiled data regarding general transactions with its affiliates. IPC indicates that even if the information sought by the Commission was available, because of its sensitive and confidential nature, the information would be inappropriate for general disclosure by the Commission on its web site or otherwise as part of this NOI.

*F.1.g. MidAmerican Energy Company*

MidAmerican Energy Holdings Company carries out its business through the operation of three primary subsidiaries., MidAmerican Energy, Northern Electric & Gas and CalEnergy. MidAmerican Energy provides electric and natural gas service in Iowa, Illinois, Nebraska and South Dakota. Northern Electric & Gas is a regional electric company of England and Wales. CalEnergy develops and produces energy from diversified sources including geothermal, natural gas, and hydroelectric. MEC provided schedules of transactions with affiliates. These transactions appear to include administrative costs cellular telephone and related services, monitoring and security-related services, gas purchases-swing gas, use of railroad, lobbying, rail car lease payments, and corporate apartments.

*F.1.h. Mt. Carmel Public Utility Co*

Mt. Carmel has no major operating affiliates.

*F.1.i. Nicor*

Nicor lists the following major operating affiliates: Birdsall, Inc. and subsidiaries; Nicor Enerchange, LLC; and Nicor Energy Services Company. Nicor lists the following types of transactions between these affiliates and the LDC: facilities and services, administration of Nicor Gas's Chicago market hub, purchases and sales of natural gas, and customer information and billing services which are also offered to non-affiliated suppliers on the same terms.

*F.1.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

The major operating affiliated interests of Peoples Gas and North Shore are: Peoples Energy Resources Corp., Peoples Energy Service Corporation, and Peoples Energy

Production Company. Transactions identified by Peoples include the provision of natural gas liquids peaking services to Peoples Gas, leasing and ultimately purchasing from Peoples Gas the site for a peaker plant, a gas marketer taking gas services from the utilities under tariffs on file with the Commission and under the same terms and conditions as other similar entities.

*F.1.k. United Cities Gas Company*

No comments offered.

***F.2. If the respondent is an Illinois LDC, please provide a copy of the policies of such LDC and a copy of the policies of the affiliated holding company concerning permissible and impermissible communications, information sharing and transactions among affiliates relating to natural gas pricing, purchasing and present/prospective natural gas market conditions which may impact the pricing of natural gas which such LDC purchases.***

*F.2.a. Alliant Energy*

Alliant states that it does not engage in natural gas transactions with its affiliates.

*F.2.b. Ameren*

Ameren does not have written policies but does have in place the following internal practices:

1. Regulated transactions are kept separate and apart from all other transactions.
2. Ameren does not "trade" gas between regulated and unregulated affiliates.
3. Ameren lists several aspects of gas contracting and delivery it keeps separate for each Ameren LDC. However, Ameren Services sometimes purchases natural gas supplies or pipeline transportation for the LDCs together when that works to the advantage of their customers.

*F.2.c. CILCO*

Same as F-1 above.

*F.2.d. Cook County State's Attorney's Office*

No comments provided. Left for companies at this time.

*F.2.e. Illinois Gas Company*

Since there are no activities of USDI relating to natural gas pricing, purchasing and present/perspective natural gas market conditions, there is no policy relating to such communications.

*F.2.f. Illinois Power*

The policy of IPC and Dynegy is to comply fully with all applicable laws and regulations. IP notes the Services and Facilities agreement approved by Commission and indicates that it has in place compliance measures to handle the Commission's electric affiliate rules (Part 450). IPC also states that it is cautious with the information it shares with affiliates pending the outcome of the Commission's final gas affiliate rule. For firm supply reservation contracts, IPC's policy is to seek bids from all qualified suppliers, including affiliates, and then buy the amount needed beginning with the lowest bidder and working up the scale until the amount needed is purchased. For spot purchases, there is less formality. IPC buys from an affiliate when its price is better than or equal to competing, available supply options.

*F.2.g. MidAmerican Energy Company*

MidAmerican has developed a methodical process regarding communications between MidAmerican and its affiliates. MidAmerican attached various documents as evidence of this process.

*F.2.h. Mt. Carmel Public Utility Co*

Mt. Carmel states that this question is not applicable.

*F.2.i. Nicor*

Nicor referenced its comments on F-1 above and provided a copy of its internal policy statement setting forth its standards of conduct.

*F.2.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Peoples Gas and North Shore and all of their affiliates comply with the applicable statutes and Commission rules. Peoples and North Shore state that they already comply, in principle, with the gas affiliate rule proposed by Staff in Docket No. 00-0586. Finally, the companies conduct transactions with affiliates under an Intercompany agreement approved by the Commission under Section 7-101. These transactions typically include accounting, finance, human resources, and legal services.

*F.2.k. United Cities Gas Company*

No response

***F.3. If the respondent is an Illinois LDC, what impact has severe weather had on such LDC's revenues for the 3rd and 4th Quarter, 2000 and the beginning of the 1st Quarter of 2001? Is revenue a component of the formula for allocation of expenses between such LDC and affiliates? What percent, if any, of these costs are or will be reallocated to ratepayers?***

*F.3.a. Alliant Energy*

South Beloit Water Gas and Electric experienced increased gas revenues due to weather of $4,025 and $53,498 for the 3rd and 4th quarters of 2000 respectively. Interstate Power and Light experienced increased gas revenues due to weather of $2,395 and $50,784 for the 3rd and 4th quarters of 2000 respectively. Both SBWGE and IPC allocate expenses between affiliates based upon therms, not revenues. SBWGE and IPC are not able to determine if costs are or will be reallocated to ratepayers at this time.

*F.3.b. Ameren*

Compared to the previous year, total Ameren Illinois gas revenues were up 23.5% for the 3rd quarter of 1999, 88% for the 4th Quarter of 1999, and 63% for January 2001. Revenues are not a component of the formula for allocation of expenses between Ameren's LDCs and its other affiliates. Gas costs are charge directly to the Company receiving the product. Therefore, no costs will be reallocated to ratepayers as a result of the increased revenues.

*F.3.c. CILCO*

Higher gas costs did not have a significant effect on 3rd quarter 2000 revenues. The combination of colder weather and higher gas prices increased 4th quarter 2000 revenues by about $50 million and 1st quarter 2001 by an estimated $55 million. Revenues are not used for allocations of costs between regulated and non-regulated operations.

*F.3.d. Cook County State's Attorney's Office*

No comments provided. Left for companies at this time.

*F.3.e. Illinois Gas Company*

Since overheads are based on payroll only, changes in the price of natural gas have no impact on the distribution of costs between Illinois Gas and its affiliate, USDI.

*F.3.f. Illinois Power*

IPC experienced increased revenues in the 3rd and 4th quarters of 2000 and the beginning of the1st quarter of 2001 due to increased gas prices and severe weather. These increased revenues were largely offset by increased costs. Revenue is not a component of the formula used to allocate costs between IPC and its affiliates. Thus, the final question is not applicable.

*F.3.g. MidAmerican Energy Company*

Severe weather has caused increased throughput and thus Illinois margins (i.e., revenues less the costs of gas sold) are up approximately $300 to $400 thousand through the end of 2000. Revenue is not a component of any formula used for allocation of expenses between MidAmerican and its affiliates.

*F.3.h. Mt. Carmel Public Utility Co*

Any severe weather which causes more consumption creates higher revenues. Any question regarding affiliates is not applicable.

*F.3.i. Nicor*

Nicor estimates that weather was near normal and had no impact upon revenues for the third quarter of 2000, about 15 percent colder than normal and increased revenues by $78 million for the fourth quarter of 2000, and about 10 percent warmer than normal and decreased revenues by $45 million for the first quarter of 2001.

Revenue is a component of the allocation formula used to allocate Nicor Inc. holding company expenses to each of the subsidiaries. However, because the company's base rates are fixed, any change in allocated costs to subsidiaries associated with weather or increased prices is not collected from ratepayers.

*F.3.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Weather for the 3rd quarter of 2000 was near normal and did not have a significant effect upon revenues. Weather for the 4th quarter of 2000 was 15 percent colder than normal and result in weather-related revenue increases of $56.2 million for Peoples Gas and $9.9 million for North Shore. Weather for January 2001 was 10% warmer than normal and resulted in weather-related revenue decreases of $17.5 million for Peoples Gas and $3.0 million for North Shore. Revenue is not a component for allocation of expenses between Peoples Gas or North Shore and its affiliates and therefore has no effect on costs to ratepayers.

*F.3.k. United Cities Gas Company*

No response

***F.4. Please comment on the relationship, if any, between the retail activities of Illinois LDCs, the wholesale and other activities of the holding company affiliated with the LDC, and the related activities of other affiliates within the same holding company. Please incorporate any relevant information from filings of the holding company or its subsidiaries with the U.S. Securities and***

***Exchange Commission, and any information from those who monitor such reports and the financial condition of utility holding companies and their affiliates.***

*F.4.a. Alliant Energy*

Alliant refers the Commission to Alliant Energy's 1999 10K filing with the SEC for such information.

*F.4.b. Ameren*

There is no relationship between the retail activities of Ameren's Illinois LDCs involving natural gas and the wholesale and other activities of the Ameren holding company. Consequently, there is no relevant information in SEC filings or reports of parties that monitor those filings.

*F.4.c. CILCO*

CILCO does not have affiliates, other than CESI, involved in natural gas activities. See item F-1.

*F.4.d. Cook County State's Attorney's Office*

No comments provided. Left for companies at this time.

*F.4.e. Illinois Gas Company*

There is no holding company for Illinois Gas. Since Illinois Gas is privately held there are no SEC reports or communications.

*F.4.f. Illinois Power*

IPC refers the Commission to it comments under F-1 & F-2 above and to its September 30, 1999 Form 10-Q filed with the SEC.

*F.4.g. MidAmerican Energy Company*

MidAmerican sells natural gas and natural gas services to retail customers inside and outside MidAmerican's distribution area. MidAmerican's retail group provides natural gas supplies delivered to the appropriate local distribution company for end use transportation customers in South Dakota, Iowa, Illinois, Ohio and Kentucky. These customers contract for supply under various pricing and balancing arrangements. Activities between MidAmerican Energy Company and affiliates are performed in accordance with the Commission's Rules on Affiliate Transactions and thus are either expressly approved by the Commission prior to the commencement of the activity or conducted pursuant to the Intercompany Administrative Services Agreement. Additionally, MidAmerican has attached Form U-3A-2 filed with the Securities and Exchange Commission prior to March 1 of each year.

*F.4.h. Mt. Carmel Public Utility Co*

Mt. Carmel states that his question is not applicable.

*F.4.i. Nicor*

Nicor references its comments upon F-1 and F-2 above.

*F.4.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

The Company refers the Commission to its responses to F-14 and F-2 above.

*F.4.k. United Cities Gas Company*

No response

## G. Wholesale and Trading

***G.1. Please indicate whether and how much supply of natural gas, that would normally have been available for transportation to Illinois, was instead transported to western states such as California and what effect any such diversion of such natural gas may have had on the spot price of natural gas in the midwest market since December 1, 2000.***

*G.1.a. Alliant Energy*

Significant price differentials between California, Illinois, and New England in December indicative of constraints in moving gas.

*G.1.b. Ameren*

Difficult to estimate how much gas was diverted to western markets. Some producing basins access both Midwestern markets and Western markets, while others cannot access the Western Markets. High price differentials were observed between Western markets and Midwestern markets and it is likely that the high California prices were attracting supply.

*G.1.c. CILCO*

CILCO does not have the necessary data but recommends past issues of <u>Gas Daily</u>.

*G.1.d. Cook County State's Attorney's Office*

Natural gas is sold in an unregulated hemispherical market. So demand elsewhere will affect prices in Illinois.

*G.1.e. Illinois Gas Company*

Ill. Gas has not experienced any shortage of supply due to transport to California or elsewhere.

*G.1.f. Illinois Power*

IP has no direct knowledge of this, but notes that it was able to obtain sufficient supplies to meet its customers' demand.

*G.1.g. MidAmerican Energy Company*

Unable to determine.

*G.1.h. Mt. Carmel Public Utility Co*

No direct knowledge of such circumstances. Lower supply to Midwest would have creates a higher price.

*G.1.i. Nicor*

Unaware of any supply shortages in Illinois or the Midwest. Acknowledges that weather and demand can affect price across the nation.

*G.1.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Does not know. If some supply was diverted to California, Companies still were able to meet all consumer demand.

*G.1.k. United Cities Gas Company*

No response

***G.2. The earnings reports for the 4th Quarter 2000 for gas trading companies were quite robust. Please explain how the price spikes in natural gas prices since January 1, 2000 contributed to the earnings of companies such as these. In particular, please comment on the reasons for increased profitability of the commodity sale, services and trading activities of companies such as these. Please comment on the impact of increased earnings such as these on the price of natural gas purchased by Illinois LDC's.***

*G.2.a. Alliant Energy*

In a rising market, trading companies that take a long position will have profits, but this does not cause the price to rise which instead is caused by the law of supply and demand.

*G.2.b. Ameren*

On the surface, it appears that there is a relationship between the outstanding financial performance and the high gas prices.

*G.2.c. CILCO*

Hopeful that increased earnings would better enable gas trading companies to drill for new reserves.

*G.2.d. Cook County State's Attorney's Office*

Should examine whether entry and exit are relatively easy and whether any trading company had dominant control of any essential facility. Otherwise, issue of profits should not arise.

*G.2.e. Illinois Gas Company*

Ill Gas pays a set amount to its supplier.

*G.2.f. Illinois Power*

IP has no direct knowledge of this, but refers to its response to A.1

*G.2.g. MidAmerican Energy Company*

Price volatility rather than high prices responsible for profits. Trading companies make profits by making markets and managing risk when prices are volatile.

*G.2.h. Mt. Carmel Public Utility Co*

No direct knowledge of such circumstances. Could have contributed to higher prices.

*G.2.i. Nicor*

Agrees with the Commission's assessment of the 4th quarter earnings reported for natural gas trading companies. (Based on the same publicly available information that is presumed the Commission reviewed.)

*G.2.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Do not know. Included publicly available press releases on issue.

*G.2.k. United Cities Gas Company*

No response

## H. Projected Natural Gas Prices

***H.1. Witnesses before the Commission have stated that natural gas storage will be depleted to very low levels by March 31, 2001. In addition, new natural gas generation plants are being constructed in Illinois to serve peak and intermediate loads. What impact may such low storage levels and increased use of natural gas for generation of electricity have on the price of natural gas during the 2nd, 3rd, and 4th Quarters of 2001.***

*H.1.a. Alliant Energy*

No response

*H.1.b. Ameren*

Increased demand to fill storage and fuel power plants put upward pressure on gas prices. Will increased exploration and drilling or an economic downturn (or weather) counteract this effect? Nobody knows.

*H.1.c. CILCO*

Many factors are involved, but expects prices to remain high unless significant new supplies are released into the market.

*H.1.d. Cook County State's Attorney's Office*

Higher prices will likely be experienced, at least in the short term.

*H.1.e. Illinois Gas Company*

No knowledge on the subject.

*H.1.f. Illinois Power*

Increased storage injections and natural gas-fired generation will increase demand and price for natural gas. Storage depletion has slowed. Variables make it difficult to predict gas prices for remainder of year.

*H.1.g. MidAmerican Energy Company*

Prices expected to be higher than in previous years but not higher than this past heating season. Many factors involved.

*H.1.h. Mt. Carmel Public Utility Co*

Seems that prices could increase, but nothing definitive.

*H.1.i. Nicor*

Substantial increase in summer demand for gas due to storage refill and electric generation fueled by natural gas. Natural gas production is declining and there is a lag (several months) between currently increasing drilling activity and actual new supplies delivered to market. Not sufficient information to speculate on potential quarterly natural gas prices. Likely that prices will remain high the remainder of the year compare to historical prices for the same periods.

*H.1.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

No incentive for prices to decrease, strong possibility for prices to increase due to the following: demand for storage expected to average 2 - 5 BCF/day this summer. Electric gen. Demand expected to average 2 - 5 BCF/day more than last year. No new supplies. No new transport capacity for incremental 10 BCF/day demand from Electric generation by 2002. Country must average 4.7 BCF/day incremental injection higher than last year to reach more normal inventories. The 4.7BCF incremental injection will compete against incremental 10 BCF/day of new gas fueled electric generation.

*H.1.k. United Cities Gas Company*

No response

***H.2. What are the most recent natural gas price projections, by month, through December 2002, for gas purchased at the Henry Hub, for gas purchased at the Chicago citygate, and/or for gas purchased at some other location with similar relevance to Illinois consumers? Compare these projections to the average historical spot market prices, by month, from 1998 through the present at the same locations. Assuming the projections are accurate, how would the changes in prices affect consumers in Illinois?***

*H.2.a. Alliant Energy*

Forecast provided in Exh. H-2. No response to the question concerning the impact on consumers. Forecast based on Feb 22, 2001 market conditions. Prices peak with the January 2002 contracts. NYMEX Henry Hub at $5.45/MMBtu; Chicago citygate at $5.67/MMBtu.

*H.2.b. Ameren*

On page 30, lists NYMEX strip as of February 26, 2001 settle. Peaks with January 2002 contract at $5.46/MMBtu.

*H.2.c. CILCO*

Included an attachment showing NYMEX prices for the Henry Hub as of Feb 20, as well as Enron Online quotes of basis between Henry Hub and Chicago Citygate and between Henry Hub and NGPL Midcontinent. With these basis adjustments, prices peak with the Jan 2002 contract. Henry Hub at $5.515/MMBtu; Chicago Citygate at $5.740; NGPL Midcontinent at $5.415/MMBtu.

*H.2.d. Cook County State's Attorney's Office*

There already are projections and information at consumers' disposal. With direct purchase programs, consumers will have even more information and will have an incentive to examine the information.

*H.2.e.* *Illinois Gas Company*
Ill Gas does not make price projections.

*H.2.f.* *Illinois Power*
Listed historical last trade date settlements of NYMEX Henry Hub futures and the Feb 28, 2001 settlements of April 2001 though December 2002 contracts. The latter peaks with the January 2002 contract at $5.584/MMBtu.

*H.2.g.* *MidAmerican Energy Company*
See MidAmerican's Exhibit H-2. Peaks with January 2002 contracts. NYMEX (Henry Hub) at $5.53/MMBtu; Chicago Citygate at $5.74/MMBtu.

*H.2.h.* *Mt. Carmel Public Utility Co*
No response

*H.2.i.* *Nicor*
See the attached table provided by Cambridge Energy Research Associates. Forecast prices peak with the January 2002 contract. Henry Hub at $5.40/MMBtu; Chicago citygate at $5.65/MMBtu.

*H.2.j.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*
Not sufficient information to speculate, in general commodity component to customers moves in the same direction. See attachment H-2. Feb 15, 2001 NYMEX Henry Hub price peaks with the Jan2002 contract at $5.668/MMBtu. February 2001 DOE Short-Term Energy Outlook forecast of spot gas prices peaks with the December 2001 prices at $5.46 with January 2002 at $5.41.

*H.2.k.* *United Cities Gas Company*
No response

## I. Hedging and Risk Management

### *I.1. Please comment on the potential use by LDCs of hedging activities such as the use of futures, options, fixed price forward contracts, and similar instruments. What if any guidelines would be appropriate for such activities?*

*I.1.a. Alliant Energy*

Hedging activities can dampen price volatility, but will entail costs. Would need guidelines (Commission rules?) to address LDC concerns over prudence reviews.

*I.1.b. Ameren*

Commission should encourage but should not adopt strict rules, since they would become obsolete in dynamic markets. Financial instruments, used properly, can dampen volatility but not create cheap gas.

*I.1.c. CILCO*

Hedging can reduce sharp increases or decreases in prices but does not equate to low costs. There are many types of hedging mechanisms.

*I.1.d. Citizens Utility Board*

In reply to various initial comments, CUB points out that the level of prices could not have been predicted but the volatility of gas prices had already been a well-established fact. Utilities have taken many steps to insulate customers from actual shortages, which typically last only a few days. Utilities have not done enough to insulate customers from price increases. Storage should be used more as a price hedging tool. CUB also points out that it previously has made recommendations--to improve upon price hedging and to hold utilities accountable for subjecting captive ratepayers to unmitigated price risk--in the forum recommended by the NOI Manager in 97-NOI-1, i.e., in annual PGA prudence reviews. So far, no utility has been subject to a prudence disallowance related to gas price hedging. Thus, utility comments for up-front protection from "regulatory risk" are hollow. **Recommendation**: The Commission should disabuse utilities of the notion that they face no regulatory risk for failing to mitigate price risk and that the Commission start punishing utilities for failing to make proper use of fixed price contracts, ceiling prices on supply contracts that are otherwise linked to market indexes, financial instruments such as futures, price-sensitive storage dispatch, or other hedging opportunities.

*I.1.e. Cook County State's Attorney's Office*

Hedging is prudent. Commission's legacy of cautioning LDCs on pitfalls of hedging tools, suggesting a biased treatment of associated rewards and costs, has always been wrong. No ironclad rule of how much to hedge. Managerial talent useful. **Recommendation**: Require each LDC to report on hedging.

*I.1.f.* *Illinois Gas Company*

Ill. Gas feels its customers would be willing to pay slightly increased costs on average in order to avoid price spikes.

*I.1.g.* *Illinois Power*

Should consider relative importance of price stability versus accurate price signals. Variety of mechanisms to reach hedging goals. There is a cost to hedging, so the long-run price of unhedged portfolio will be less than that of a hedged portfolio. **Recommendation**: Hold workshops and rulemaking to create guidelines for hedging.

*I.1.h.* *MidAmerican Energy Company*

Company currently relied on storage resources as a hedge against winter price increases. Incorporating options, futures and fixed price forwards in procurement practices may further reduce risk exposure for ratepayers, but will not necessarily lower costs in the long run. Company has been reluctant to pursue such measures due to regulatory uncertainty. **Recommendation**: Commission should articulate a range of reasonableness for the amount of supply a utility can hedge.

*I.1.i.* *Mt. Carmel Public Utility Co*

Potential for more use of hedging, but mitigated by lack of guidelines and after the fact review.

*I.1.j.* *Nicor*

Hedging should be allowed. Hedging fixes prices—does not guarantee lower prices. Nicor would propose a workshop if Commission desires to establish additional guidelines for hedging. Differing loads, operations and access to pipelines of LDCs must be considered in establishing guidelines.

*I.1.k.* *Peoples Gas Light & Coke Co. / North Shore Gas Co.*

Hedging is used for stability—not lower prices. Market provides long-term lowest prices for customers. Commission must take into account facts at time of hedge, load patterns, no blueprint strategy for all utilities, hedging costs must be treated as recoverable gas costs. Market could use Commission established hedging guidelines to the detriment of utility. Essential that utilities using established Commission guidelines for hedging NOT be subject to prudence review for these activities. Process must begin immediately if real change is desired.

*I.1.l. United Cities Gas Company*

No response

***I.2. The annual reports to shareholders and other reports filed by Illinois LDC's and/or their affiliates with various governmental agencies often discuss various risk management initiatives by the ultimate parent of the LDC as well as by subsidiaries of such parent to mitigate shareholder risk. An example of this is 'weather insurance" which is designed to protect company earnings during times of "unusual" weather. Please discuss the appropriate use of such risk management activities for Illinois LDCs.***

*I.2.a. Alliant Energy*

Such activities are appropriate as long as the costs are borne by shareholders.

*I.2.b. Ameren*

Hedging techniques such as weather insurance benefit both utility and consumers. Same result can be achieved with fixed monthly delivery system access charges. A fee in the range of $25-35 would eliminate all variability in the delivery portion of bills.

*I.2.c. CILCO*

CILCO does not participate in weather insurance, but believes that any cashflows associates with such mechanisms should be borne by shareholders.

*I.2.d. Cook County State's Attorney's Office*

Weather insurance could be passed on to consumers whenever it has been shown to lower total cost of service (through lowering the utility's risk and hence its cost of capital).

*I.2.e. Illinois Gas Company*

No comment.

*I.2.f. Illinois Power*

See comments to I.1.

*I.2.g. MidAmerican Energy Company*

An LDC's use of weather hedging is not the same as would be used for its customers. When heating seasons are warmer than normal, an LDC's earnings are at risk due to the reduced system throughput. The LDC's customer, however, pays more when the weather is colder than normal due to increased usage. As a result, the LDC and its customers have different weather risk exposure.

*I.2.h. Mt. Carmel Public Utility Co*

No response

*I.2.i. Nicor*

Weather can affect weather sensitive sales. Nicor's rates are set based on normal sales (normal=avg. weather conditions over 30+ years.) If there are earnings shortfalls due to weather the LDC can: seek higher rates, use weather insurance to protect earnings, or do nothing. Weather insurance is a cost of doing business like any other insurance. It may be preferable to select the known cost of weather insurance over the unknown future of the weather.

*I.2.j. Peoples Gas Light & Coke Co. / North Shore Gas Co.*

To mitigate substantially warmer weather, Peoples Energy Corp., purchased a 5 year weather insurance policy, began in Fiscal 2000. Protects earnings when weather falls below 6,000 degree days. Premium paid by Peoples Energy Corp. and any settlement is recorded on parent company's books. Settled at end of each Fiscal year.

*I.2.k. United Cities Gas Company*

No response

## J. Other Comments Not Directly in Response to NOI Questions

### *J.1. Rate Design*

*J.1.a. Cook County State's Attorney's Office*

**Recommendation**: The Commission should initiate a rulemaking concerning rate design to create a rule requiring allocation of fixed costs 50% upon annual usage and 50% upon summer and winter peak use. Further elaboration on the proposal is found in the State's Attorney's Office's reply comments.

**Response by Peoples Gas Light & Coke Co. / North Shore Gas Co:** Proposal should be rejected because it ignores the Commission's practice of determining cost allocation issues on a case-by-case basis, based on utility-specific evidence. Cost allocation is a hotly debated issue and the Commission has rejected the State's Attorney's cost allocation proposals in other dockets.

**Response by Nicor:** Based on Commission actions in previous rate cases, there are no subsidies on Nicor's system. Furthermore, the Commission has generally accepted Staff's position that demand-related costs be allocated using the "Average and Peak" method, so costs are not allocated entirely on the basis of peak, as Cook County asserts.

### *J.2. FERC Intervention*

*J.2.a. Cook County State's Attorney's Office*

**Recommendation**: Commission should petition Federal Energy Regulatory Commission to commence a notice of proposed rulemaking to generically change interstate pipeline rate design to adopt the Seaboard method rather than the straight fixed variable or modified straight fixed variable method. Furthermore, the Staff of the Commission should make a similar pleading in all interventions before the FERC and issue a public report within six months outlining its initiates and strategies.

**Response by Nicor:** Questions theory that customers of LDCs would benefit from the recommended change in pipeline rate design. Points out that as a pipeline customer, Nicor is a large-volume, high load factor customer, and the benefits from straight fixed variable rate design are passed on to ratepayers through the PGA.

### *J.3. Resale of Gas Supply and Capacity*

*J.3.a. Cook County State's Attorney's Office*

**Recommendation**: In its reply comments, the State's Attorney's Office states that " It would be useful if the Illinois Commerce Commission staff conducted a survey of industrial and other gas users on whether they receive appropriate price signals to make such a shift. Further, when these customers have firm commitments for supply and capacity, can these customers easily resell their gas supply and capacity to others? Depending upon responses, the Commission staff may wish to promulgate a proposed change in this Commission's rules."

### *J.4. Impact on Consumers*

*J.4.a. Midwest Community Council*

Impact of this winter's gas charge increases characterized as a crisis and its toll on people described through several examples. Comments blame Peoples Gas for purchasing mistakes and failure to hedge. **Recommendations**: "Let Peoples Energy live with the prices they paid for wholesale gas, and let everyday people who had no choice live their lives, raise their children. Let seniors mature into their years without a capricious assault on the precious funds they have, let Churches work for their members instead of

Peoples Gas, and let this be a lesson to Peoples Energy, to protect your customers."